

**Transcript of Press Conference Call with
Senate Budget Committee Chairman Kent Conrad (D-ND)
on the Bush Administration's Midsession Budget Review
August 22, 2001**

Thank you all for joining me. I am calling from Helsinki, Finland where I'm with the Aspen Institute where we are meeting with Russian leaders to discuss the future of our relations, so that's where I am and what I'm doing. Let me just make a brief statement and then answer any questions that you might have.

I believe President Bush's campaign promises are unraveling. He claimed we could afford his massive tax cut, a major defense buildup, more money for education, while paying down the debt and protecting Social Security and Medicare. He was wrong.

Not only is President Bush poised to invade the Social Security and Medicare trust funds during an economic slowdown, but he is actually proposing to raid Medicare and I believe Social Security trust funds when he is forecasting strong economic growth. This is fiscal mismanagement 'big time.'

And that's what I find frankly the most troublesome thing about this whole circumstance. It's one thing to see these problems at times of an economic slowdown, but it is quite another when the President is forecasting strong economic growth to see them proposing a budget plan that will raid Medicare and I believe Social Security trust funds.

Some may ask well his numbers don't show them using Social Security Trust Funds. I believe they've cooked the books to avoid the appearance of what is actually happening, and they've done it in three ways. One, they've changed the way Social Security Trust Funds are accounted for. They've adopted a rosy economic scenario showing significantly stronger economic growth than the blue chip forecasters. And they've left out whole chunks of the budget that was passed after all by their own party. They're leaving out a substantial part of the prescription drug spending plan the Republicans wrote, the farm bill spending plans the Republicans wrote, and this combination creates an unrealistic fiscal picture for the country.

I'd be happy to answer questions anybody might have.

Q - (summary) Where do we go in 2002 budget from here -- by their own calculations they're into Medicare...what does that mean for 2002 appropriations bills and what sort of flexibility does Congress have to spend the money anyway?

Conrad: Let me just address 2002. This creates severe problems. As you know, the President -- who has got the biggest spending proposal beyond what is in the budget -- he points the finger at

Democrats, but it is the President himself who has proposed \$18 billion over and above the numbers that are in the budget resolution for defense. And, he's not proposed anyway to pay for it. That means the money will come right out of the trust funds for Medicare and Social Security if his proposal were to be adopted. In fact, it would put us right into, according to our analysis, the President's defense proposal would have us invading the Social Security Trust Fund in 2002. And, again, that is at a time when he is forecasting strong economic growth. I believe that is a serious mistake to use Social Security and Medicare trust funds to finance the other operations of the government at a time when he is forecasting strong economic growth. That to me is fiscal mismanagement 'big time.'

Q - (summary) Under the budget resolution, you have power to veto that \$18 billion defense request because it would require Medicare funds. Will you do that?

Conrad: Actually, I am precluded now from adding money for defense because as you'll recall the budget resolution says I am only able to add it if it does not invade the Medicare HI Trust Fund. And, now clearly, the Administration is using Medicare Trust Fund money next year, so I would be precluded from adding money for defense.

Q - So where does that leave us, no \$18 billion?

Conrad: Well, as you know, 60 votes in the Senate can overturn the restrictions in the budget resolution. So it will be a matter of votes. What will my colleagues decide to do? I think – and I've tried to be very clear about this throughout – I think it would be most unwise when the President is forecasting strong economic growth to use Social Security and Medicare trust fund money to finance the other operations of government. I will personally oppose it. What my colleagues decide to do, I cannot predict. I can tell you what I will do, what I think is unwise and remember I've supported additional money for defense. In the budget I proposed, I had \$100 billion over the baseline for defense over the 10 years. But that was paid for in my budget. The President is proposing – and this is his spending proposal – is to add money, \$18 billion for defense, that would come directly out of the Medicare and Social Security trust funds under his own numbers.

Q - Does your opposition extend to the extenders, energy tax measures, all the things that are trickling down the pike?

Conrad: What I've tried to make clear is I will not support using Social Security and Medicare trust funds to finance the other operations of government when the forecast is for strong economic growth. To me, it is two entirely different matters which have gotten lost, which I understand the complexity is hard for people to capture.

Q - What about the patients bill of rights? Will you also oppose that because of the same reasons?

Conrad: All of that depends on where you are in the process. What I have tried to make clear on all these matters is where are you in terms of enacted legislation. And we'll have to see where that is in the queue.

Q - Can you elaborate on what you said about changing the way the Social Security trust fund is being accounted for?

Conrad: This involves the matter of the policy that has been in place for 65 years with respect to accounting for Social Security and their decision at the last minute to change that to avoid showing they are invading the Social Security Trust Fund this year.

Q - Were you aware OMB has decided that of the \$33 billion shift in corporate tax receipts (from 2001 to 2002), they're assuming about \$5 billion of the tax will come in this year anyway. Were you aware of that?

Conrad: I was not, but this is more of the same. Unfortunately, when you start engaging in gimmickry to avoid giving an accurate portrayal of the fiscal condition of the country, it just breeds more gimmickry. And that's what we're seeing. Now they've got an economic growth calculation for next year that is substantially in excess of the blue chip forecast. They've changed the accounting for Social Security. They've engaged in one gimmick after another. Of course, the shift of corporate revenue by delaying it by two weeks so they could move it from this fiscal year into the next fiscal year was a gimmick in itself. That's the first gimmick they engaged in to try to make the tax cut look more affordable.

Q - So your party never engaged in any gimmicks?

Conrad: There are lots of sins of the past, but I think if you look at what Democrats are doing this year – the appropriations bills that have gone through the Senate have been free of gimmicks, they have been straight forward, they have been within the Republican passed budget resolution. So this is not a problem of Democrats spending despite the claims of this President and this Administration. That dog won't hunt.

Q - Does the use of Social Security revenues for current needs jeopardize the ability of the system 20 years from now to pay benefits?

Conrad: I believe it does. As you know, the money gets credited for the trust fund. That is true that under any scenario the money gets credited to the trust fund. But how those dollars are then used makes a substantial difference on the ability of the federal government to keep those promises when the liabilities ultimately come due. If you take that money and pay down benefits, clearly that's not a raid. If you take that money and pay down debt to the extent that you have receipts over expenditures, I don't think that constitutes a raid. But when you take the money that comes from Social Security payroll taxes, and use it to fund the other operations of government or to pay for additional tax cuts, I believe that constitutes a raid and reduces the

ultimate ability of the government to keep its promises. It digs the hole deeper.

Q - (summary) Do you assume CBO will say Social Security is already tapped? Does this send a message to the appropriators that they're going to have to redo some of their work and perhaps lower some of the targets the budget resolution had set?

Conrad: I think what it tells us is that this Administration needs to provide some leadership. They need to stand up and say how they're going to fund their request for additional spending of what's above and beyond what is in the budget resolution now. They are the ones who are proposing \$200 billion of spending over the next 10 years just on defense that's not in the budget. Where are they going to get that from? Right now, they're going to be taking it right out of the Social Security and Medicare trust funds.

Q - (summary) back to the last question, can you explain whether this will effect Social Security benefits? Why does the accounting matter?

Conrad: It matters because when you divert money from the purposes intended, that has consequences. And the President's own Social Security Commission has said we face difficult choices in the future either cuts in benefits or significant increases in taxes or massive debt, I think was their language. It's like they don't connect the dots. On the one hand, they're invading Social Security and Medicare trust funds now to pay for other government programs, and then they're saying, 'oh, we're going to have a big problem down the track meeting the obligations of Medicare and Social Security.' Yeh.

Q - (summary) you say they haven't paid for their spending increases, but the budget reestimates OMB has just released has a defense increase, they would say it is right here, they have it all. Why is OMB's budget irrelevant?

Conrad: It depends which budget you're talking about. I mean they have so many budgets floating around. I'm talking about the budget that Congress passed -- the Republicans in Congress passed -- did not have the President's defense increase in it. The President's OMB budget, the one he put out today, doesn't have the money for prescription drugs that was in the budget the Republicans in the Congress passed. They don't have the money that the Republicans in Congress passed for a new farm bill. These guys -- what they have done -- they have never put down an honest budget in one place and the reason they've done it is because they knew it didn't add up. It doesn't add up and that's why we've got the problems going forward because they've got a phony budget and they're going to have nothing but trouble because they tried to make the big tax cut look like it fit in with a plan that accommodated more money for defense, more money for education, that could still pay down debt to the maximum extent possible, and protect Social Security and Medicare and it was phony. That's their problem.

Q - What does this mean for Bush's ability to do a transition to private Social Security accounts?

Conrad: He's done great damage to it because he never reserved the resources to pay for it. In the budget I proposed, we reserved \$900 billion to strengthen Social Security for the future. The President's budget didn't have any money for that purpose.

Q - What was the figure again?

Conrad: \$900 billion in my budget to strengthen Social Security for the longterm. That \$900 billion was over and above reserving all the Social Security and all the Medicare trust funds for the purposes intended.

Q - (summary) Don't Democrats, who were behind the idea of a tax rebate, bear some of the responsibility for that part of the drain on the surplus. And what about more stimulus in this environment?

Conrad: First of all, it is absolutely correct that Democrats supported more money to stimulate the economy this year than did the Administration. One of the ironies here is that the Administration is claiming credit for tax reduction this year to stimulate the economy when their budget plan didn't contain it. And, it is true we supported in my budget \$60 billion for economic stimulus this year by way of a tax cut. But you have to remember I opposed, and we Democrats opposed, the accounting gimmick the Republicans engaged in to shift \$33 billion out of this year into next year to make their tax cut look more affordable in 2002. There are three things that have led to the problem. Number one - tax cut. Number two - slowing economy. Number three - an accounting gimmick they engaged in which we opposed to try to make their tax cut next year look more affordable.

On the questions of stimulus, 2002 the Administration is forecasting very strong economic growth. That's their forecast and not only are they forecasting in 2002 economic growth, but 2003 and beyond and in that context, they are advocating the use of the trust funds, not only Medicare, but I believe – using honest numbers – they're also going to be raiding Social Security trust funds to pay for the other operations of government.

Q - (summary) Will CBO numbers be worse or better and what effect will that have?

Conrad: I think we'll just have to wait and see. I do not have CBO numbers. I think we'll just have to wait and see.

Q - (summary) Can you summarize your reaction to the Administration's announcement?

Conrad: I believe President Bush's campaign promises are unraveling. He claimed we could afford his massive tax cut, a major defense buildup, more money for education, while paying down the debt and protecting Social Security and Medicare. And, he was wrong.

Not only is President Bush poised to invade the Social Security and Medicare trust funds during

an economic slowdown, but he is also proposing to raid Medicare and I believe Social Security trust funds when he is forecasting strong economic growth. This is fiscal mismanagement 'big time.'

And in addition to that, he's cooked the books. You can see it in three different ways. One he's changed the way Social Security Trust Funds are accounted for. He has adopted a rosy economic scenario for next year substantially in excess of the blue chip forecast. And he also left out certain budget items the Republicans in Congress included in the spending plan for next year and beyond. So this is the kind of funny money accounting that gets us in trouble. They've started to engage in cooking the books in a significant way. That's unfortunate and a mistake.

Thank you.